

**REPORT OF THE AUDIT OF THE
HART COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2008**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE HART COUNTY FISCAL COURT

June 30, 2008

The Auditor of Public Accounts has completed the audit of the Hart County Fiscal Court for fiscal year ended June 30, 2008.

We have issued unqualified opinions, based on our audit and the reports of the other auditors, on the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information.

Financial Condition:

The Fiscal Court had total net assets of \$6,587,458 as of June 30, 2008. The Fiscal Court had unrestricted net assets of \$2,518,510 in its governmental activities as of June 30, 2008, with total net assets of \$6,537,753. In its business-type activities, total net cash and cash equivalents were \$30,848 with total net assets of \$49,705. The Fiscal Court's discretely presented component units had unrestricted net assets of \$909,958 as of June 30, 2008, with total net assets of \$2,048,369. The Fiscal Court had total debt principal as of June 30, 2008 of \$15,457,098 with \$703,458 due within the next year. The discretely presented component units had total debt principal as of June 30, 2008 of \$3,580,092 with \$1,300,172 due within the next year.

Report Comments:

- 2008-01 The Fiscal Court Should Properly Levy Occupational License Tax In Industrial Taxing District
- 2008-02 The Jailer's Salary Should Be Paid Monthly In Accordance With The Maximum Salary Authorization Set By The Kentucky Department For Local Government
- 2008-03 The Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts And Reconciliations
- 2008-04 The Fiscal Court Should Improve Procedures Over Capital Assets
- 2008-05 The Hart County Jailer Lacks Adequate Segregation Of Duties
- 2008-06 The Hart County Jailer Should Improve Internal Controls Over Cash And Receipts
- 2008-07 The Hart County Jailer Should Improve Internal Controls Over Disbursements
- 2008-08 The Fiscal Court Should Improve Payroll Procedures

Deposits:

The Fiscal Court's deposits as of June 30, 2008, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$372,913

The Fiscal Court's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Fiscal Court's deposits in accordance with the security agreement.

The discretely presented component units' deposits were covered by FDIC or a properly executed collateral security agreement.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Terry Martin, Hart County Judge/Executive

Members of the Hart County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Hart County, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Hart County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit the financial statements of the discretely presented component units: Hart County Industrial Authority, Inc., the Hart County Solid Waste Management District, and the Hart County Tourist Commission, which represent 79 percent, 18 percent and 3 percent, respectively, of the assets, and 20 percent, 74 percent and 6 percent, respectively, of the revenues of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Hart County Industrial Authority, Inc., the Hart County Solid Waste Management District and the Hart County Tourist Commission, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

As described in Note 1, Hart County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Hart County, Kentucky, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Terry Martin, Hart County Judge/Executive
Members of the Hart County Fiscal Court

The Hart County Fiscal Court has not presented the management's discussion and analysis that the Government Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison schedules are not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the budgetary comparison schedules. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hart County, Kentucky's basic financial statements. The accompanying combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated August 27, 2009 on our consideration of Hart County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2008-01 The Fiscal Court Should Properly Levy Occupational License Tax In Industrial Taxing District
- 2008-02 The Jailer's Salary Should Be Paid Monthly In Accordance With The Maximum Salary Authorization Set By The Kentucky Department For Local Government
- 2008-03 The Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts And Reconciliations
- 2008-04 The Fiscal Court Should Improve Procedures Over Capital Assets
- 2008-05 The Hart County Jailer Lacks Adequate Segregation Of Duties
- 2008-06 The Hart County Jailer Should Improve Internal Controls Over Cash And Receipts
- 2008-07 The Hart County Jailer Should Improve Internal Controls Over Disbursements
- 2008-08 The Fiscal Court Should Improve Payroll Procedures

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

August 27, 2009

HART COUNTY OFFICIALS

For The Year Ended June 30, 2008

Fiscal Court Members:

Terry Martin	County Judge/Executive
Gary Gardner	Magistrate
Melvin Perkins	Magistrate
Ronald Riordan	Magistrate
Franklin Turner	Magistrate
Don Kessinger	Magistrate

Other Elected Officials:

Mike Nichols	County Attorney
Keith Riordan	Jailer
Lisa Hensley	County Clerk
Rita Doyle	Circuit Court Clerk
Boston Hensley	Sheriff
Vicki Reynolds	Property Valuation Administrator
Jeff Roten	Coroner

Appointed Personnel:

Sue Gardner	County Treasurer
Paula Day	Finance Officer
Georgia Gardner	Jail Administrative Assistant/Bookkeeper
Rietta Osborne	Occupational Tax Collector
Brian Webber	911 Administrator
Gordon Ard	Road Supervisor

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HART COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2008

HART COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2008

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	Component Units
ASSETS				
Current Assets:				
Cash And Cash Equivalents	\$ 5,119,391	\$ 30,848	\$ 5,150,239	\$ 1,039,966
Assets Held For Resale				129,643
Prepaid Insurance				5,049
Utility Deposits				13,113
Total Current Assets	5,119,391	30,848	5,150,239	1,187,771
Noncurrent Assets:				
Receivable	129,386		129,386	
Capital Assets - Net Of Accumulated Depreciation:				
Land And Land Improvements	285,398		285,398	321,673
Construction In Progress	9,101,235		9,101,235	
Historical Treasures	224,669		224,669	
Buildings And Improvements	3,929,885		3,929,885	3,955,041
Other Equipment	483,617		483,617	80,833
Vehicles And Equipment	470,612	18,857	489,469	230,340
Infrastructure	2,250,658		2,250,658	
Total Noncurrent Assets	16,875,460	18,857	16,894,317	4,587,887
Total Assets	21,994,851	49,705	22,044,556	5,775,658
LIABILITIES				
Current Liabilities:				
Accounts Payable				8,856
Accrued Wages And Payroll Tax				2,277
Economic Incentive Agreement Payable				20,000
Notes Payable				1,077,966
Leases Payable				161,567
Payroll Taxes Payable				3,370
Garbage Service Deposits Payable				50,318
General Obligations Notes Payable				60,639
Unearned Revenues				2,376
Financing Obligations Payable	213,458		213,458	
Bonds Payable	490,000		490,000	
Total Current Liabilities	703,458		703,458	1,387,369
Noncurrent Liabilities:				
Economic Incentive Agreement Payable				60,000
Notes Payable				2,038,471
Leases Payable				45,000
General Obligations Notes Payable				196,449
Financing Obligations Payable	353,640		353,640	
Bonds Payable	14,400,000		14,400,000	
Total Noncurrent Liabilities	14,753,640		14,753,640	2,339,920
Total Liabilities	15,457,098		15,457,098	3,727,289

The accompanying notes are an integral part of the financial statements.

HART COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
June 30, 2008
(Continued)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Totals	
NET ASSETS				
Invested In Capital Assets,				
Net Of Related Debt	\$ 1,288,976	\$ 18,857	\$ 1,307,833	\$ 1,137,438
Restricted For:				
Debt Service	3,393		3,393	
Economic Development Projects				973
Judicial Center Project	2,726,874		2,726,874	
Unrestricted	2,518,510	30,848	2,549,358	909,958
Total Net Assets	<u>\$ 6,537,753</u>	<u>\$ 49,705</u>	<u>\$ 6,587,458</u>	<u>\$ 2,048,369</u>

The accompanying notes are an integral part of the financial statements.

HART COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2008

HART COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges For Services	Operating Grants And Contributions	Capital Grants And Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,565,068	\$ 9,990	\$ 441,601	\$ 52,346
Protection to Persons and Property	2,076,729	1,375,891	144,876	145,114
General Health and Sanitation	295,164	274	11,970	82,000
Social Services	8,894			
Recreation and Culture	221,034	62,547	49,925	
Roads	797,304	1,059	230,126	1,268,320
Debt Service	617,337		477,856	1,287,361
Capital Projects	988,221			
Total Governmental Activities	6,569,751	1,449,761	1,356,354	2,835,141
Business-Type Activities:				
Jail Canteen	157,344	124,868		
Total Business-Type Activities	157,344	124,868		
Total Primary Government	\$ 6,727,095	\$ 1,574,629	\$ 1,356,354	\$ 2,835,141
Component Units:				
Hart County Industrial Authority, Inc.	\$ 332,201	\$	\$	\$
Hart County Solid Waste Management District	1,593,092	1,528,545	92,493	
Hart County Tourist Commission	117,645			
Total Component Units	\$ 2,042,938	\$ 1,528,545	\$ 92,493	\$

General Revenues:

Taxes:

Property Taxes

Motor Vehicle Taxes

Occupational Taxes

Net Profits Taxes

Other Taxes

Transient Room Tax

Excess Fees

Miscellaneous Revenues

Investment Income

Building Rental

Rest Area Ad Sales

Grants

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

HART COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2008
(Continued)

Net (Expenses) Revenues And Changes In Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Totals	Component Units
\$ (1,061,131)	\$	\$ (1,061,131)	\$
(410,848)		(410,848)	
(200,920)		(200,920)	
(8,894)		(8,894)	
(108,562)		(108,562)	
702,201		702,201	
1,147,880		1,147,880	
(988,221)		(988,221)	
(928,495)		(928,495)	
	(32,476)	(32,476)	
	(32,476)	(32,476)	
(928,495)	(32,476)	(960,971)	
			(332,201)
			27,946
			(117,645)
			(421,900)
651,855		651,855	
94,009		94,009	
1,137,004		1,137,004	272,870
100,214		100,214	
88,363		88,363	64,691
			69,008
76,894		76,894	
220,147		220,147	8,322
417,770	648	418,418	12,243
			79,200
			50,720
			12,342
2,786,256	648	2,786,904	569,396
1,857,761	(31,828)	1,825,933	147,496
4,679,992	81,533	4,761,525	1,900,873
\$ 6,537,753	\$ 49,705	\$ 6,587,458	\$ 2,048,369

The accompanying notes are an integral part of the financial statements.

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HART COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2008

HART COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2008

	General Fund	Road Fund	Jail Fund	Federal And State Grants Fund
ASSETS				
Cash And Cash Equivalents	\$ 1,435,621	\$ 649,245	\$ 188,745	\$ 6,410
Total Assets	<u>1,435,621</u>	<u>649,245</u>	<u>188,745</u>	<u>6,410</u>
FUND BALANCES				
Reserved for:				
Encumbrances	4,082	1,993	1,562	
Unreserved:				
General Fund	1,431,539			
Special Revenue Funds		647,252	187,183	6,410
Capital Projects Fund				
Debt Service Funds				
Total Fund Balances	<u>\$ 1,435,621</u>	<u>\$ 649,245</u>	<u>\$ 188,745</u>	<u>\$ 6,410</u>

The accompanying notes are an integral part of the financial statements.

HART COUNTY
BALANCE SHEET- GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2008
(Continued)

Public Properties Corporation Fund	Non-Major Funds	Total Governmental Funds
<u>\$ 2,737,541</u>	<u>\$ 101,829</u>	<u>\$ 5,119,391</u>
<u>2,737,541</u>	<u>101,829</u>	<u>5,119,391</u>
	2,750	10,387
		1,431,539
	99,079	939,924
2,726,874		2,726,874
10,667		10,667
<u>\$ 2,737,541</u>	<u>\$ 101,829</u>	<u>\$ 5,119,391</u>

Reconciliation To Statement Of Net Assets:

Total Fund Balances	\$ 5,119,391
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used In Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	19,115,338
Accumulated Depreciation	(2,369,264)
Receivable Is Not Due and Collectible in the Current Period and, Therefore, Is Not Reported in the Governmental Funds.	
Solid Waste Management District Amount Due For Debt Service On Financing Obligations	129,386
Debt Is Not Due And Payable In The Current Period And, Therefore, Is Not Reported In The Funds.	
Financing Obligations	(567,098)
Bonds	(14,890,000)
Net Assets Of Governmental Activities	<u>\$ 6,537,753</u>

The accompanying notes are an integral part of the financial statements.

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HART COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

HART COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

	General Fund	Road Fund	Jail Fund	Federal and State Grants Fund
REVENUES				
Taxes	\$ 1,999,504	\$	\$	\$
In Lieu Tax Payments	44,091			
Excess Fees	76,894			
Licenses and Permits	21,267			
Intergovernmental	135,626	1,498,446	1,228,032	1,546,976
Charges for Services			107,057	
Miscellaneous	234,387	8,185	115,373	
Interest	17,280	27,887	1,214	
Total Revenues	<u>2,529,049</u>	<u>1,534,518</u>	<u>1,451,676</u>	<u>1,546,976</u>
EXPENDITURES				
General Government	683,539			77,109
Protection to Persons and Property	54,388		1,385,520	84,598
General Health and Sanitation	304,632			83,184
Social Services	8,894			
Recreation and Culture	7,276			
Roads		1,160,786		
Debt Service	220,474			
Capital Projects	276,720			802,000
Administration	283,531	188,448	305,782	463,546
Total Expenditures	<u>1,839,454</u>	<u>1,349,234</u>	<u>1,691,302</u>	<u>1,510,437</u>
Excess (Deficiency) Of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>689,595</u>	<u>185,284</u>	<u>(239,626)</u>	<u>36,539</u>
Other Financing Sources (Uses)				
Transfers Out	(951,548)	(232,937)	(196,231)	(61,568)
Transfers In	294,505		598,698	31,439
Borrowed Money	129,386			
Total Other Financing Sources	<u>(527,657)</u>	<u>(232,937)</u>	<u>402,467</u>	<u>(30,129)</u>
Net Change In Fund Balances	161,938	(47,653)	162,841	6,410
Fund Balances - Beginning (Restated)	1,273,683	696,898	25,904	
Fund Balances - Ending	<u>\$ 1,435,621</u>	<u>\$ 649,245</u>	<u>\$ 188,745</u>	<u>\$ 6,410</u>

The accompanying notes are an integral part of the financial statements.

HART COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES- GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2008
(Continued)

Public Properties Corporation Fund	Non-Major Funds	Total Governmental Funds
\$	\$ 206,230	\$ 2,205,734
		44,091
		76,894
		21,267
435,216	421,853	5,266,149
	30,000	137,057
119,412		477,357
274,183	1,530	322,094
<u>828,811</u>	<u>659,613</u>	<u>8,550,643</u>
	439,434	1,200,082
	127,633	1,652,139
	35,295	423,111
		8,894
	209,007	216,283
		1,160,786
434,036	225,804	880,314
7,106,639		8,185,359
15,001	154,168	1,410,476
<u>7,555,676</u>	<u>1,191,341</u>	<u>15,137,444</u>
 <u>(6,726,865)</u>	 <u>(531,728)</u>	 <u>(6,586,801)</u>
	(26,441)	(1,468,725)
	544,083	1,468,725
		129,386
	<u>517,642</u>	<u>129,386</u>
 (6,726,865)	 (14,086)	 (6,457,415)
9,464,406	115,915	11,576,806
<u>\$ 2,737,541</u>	<u>\$ 101,829</u>	<u>\$ 5,119,391</u>

The accompanying notes are an integral part of the financial statements.

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**HART COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2008

HART COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

Net Change In Fund Balances - Total Governmental Funds \$ (6,457,415)

Amounts Reported For Governmental Activities In The Statement Of Activities Are Different Because Governmental Funds Report Capital Outlays As Expenditures. However, In The Statement Of Activities, The Cost Of Those Assets Are Allocated Over Their Estimated Useful Lives And Reported As Depreciation Expense.

Capital Outlay 8,620,057

Depreciation Expense (380,494)

Book Value Of Disposed Capital Assets (64,233)

Mack Truck Purchased For Solid Waste Management District 129,386

Payment on receivable due from Solid Waste Management District is a current financial resource to governmental funds, while at the government-wide level, (123,131)

a reduction of the receivable occurs.

The Issuance Of Long-term Debt (e.g. Bonds, Financing Obligations) Provides Current Financial Resources To Governmental Funds, While Repayment Of Principal On Long-term Debt Consumes The Current Financial Resources Of Governmental Funds. These Transactions, However, Have No Effect On Net Assets.

Financing Obligation Proceeds (129,386)

Financing Obligations Principal Payments 212,977

Bond Principal Payments 50,000

Change In Net Assets Of Governmental Activities \$ 1,857,761

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HART COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2008

HART COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2008

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash And Cash Equivalents	\$ 30,848
Total Current Assets	<u>30,848</u>
Noncurrent Assets:	
Capital Assets - Net Of Accumulated Depreciation:	
Vehicles and Equipment	<u>18,857</u>
Total Noncurrent Assets	<u>18,857</u>
Total Assets	<u>49,705</u>
Net Assets	
Invested In Capital Assets	18,857
Unrestricted	<u>30,848</u>
Total Net Assets	<u>\$ 49,705</u>

The accompanying notes are an integral part of the financial statements.

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HART COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

HART COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 124,868
Total Operating Revenues	<u>124,868</u>
Operating Expenses	
Appliances	9,701
Cost of Sales	105,012
Depreciation	1,873
Educational and Recreational	3,563
Medical	35,000
Miscellaneous	378
Sales Tax	1,817
Total Operating Expenses	<u>157,344</u>
Operating Income	<u>(32,476)</u>
Nonoperating Revenues	
Interest Income	<u>648</u>
Total Nonoperating Revenues	<u>648</u>
Change In Net Assets	(31,828)
Total Net Assets - Beginning	<u>81,533</u>
Total Net Assets - Ending	<u><u>\$ 49,705</u></u>

The accompanying notes are an integral part of the financial statements.

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HART COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

HART COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 124,868
Appliances	(9,701)
Cost of Sales	(105,012)
Educational and Recreational	(3,563)
Medical	(35,000)
Miscellaneous	(378)
Sales Tax	(1,817)
Net Cash Used By Operating Activities	<u>(30,603)</u>
Cash Flows From Capital and Related Financing Activities	
Vehicle	<u>(20,730)</u>
Net Cash Used By Capital and Financing Activities	<u>(20,730)</u>
Cash Flows From Investing Activities	
Interest Earned	<u>648</u>
Net Cash Provided By Investing Activities	<u>648</u>
Net Decrease In Cash And Cash Equivalents	(50,685)
Cash And Cash Equivalents - July 1, 2007	<u>81,533</u>
Cash And Cash Equivalents - June 30, 2008	<u><u>\$ 30,848</u></u>
Reconciliation Of Operating Income To Net Cash Used By Operating Activities	
Operating Income	\$ (32,476)
Adjustment To Reconcile Operating Income To Net Cash Used By Operating Activities.	
Depreciation Expense	<u>1,873</u>
Total Cash Used By Operating Activities	<u><u>\$ (30,603)</u></u>

The accompanying notes are an integral part of the financial statements.

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HART COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2008

HART COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2008

	<u>Agency Fund</u>
	<u>Inmate Account</u>
Assets	
Current Assets:	
Cash And Cash Equivalents	\$ 88,849
Total Assets	<u>88,849</u>
Liabilities	
Amounts Held In Custody For Others	<u>88,849</u>
Total Liabilities	<u>88,849</u>
Net Assets	
Total Net Assets	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of the financial statements.

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HART COUNTY
STATEMENT OF NET ASSETS - COMPONENT UNITS
June 30, 2008

HART COUNTY
STATEMENT OF NET ASSETS - COMPONENT UNITS

June 30, 2008

	Hart County Industrial Authority, Inc.	Hart County Solid Waste Management District	Hart County Tourist Commission	Total Component Units
Assets				
Current Assets:				
Cash And Cash Equivalents	\$ 501,764	\$ 423,132	\$ 115,070	\$ 1,039,966
Assets Held For Resale		129,643		129,643
Prepaid Insurance	5,049			5,049
Utility Deposits	13,113			13,113
Total Current Assets	<u>519,926</u>	<u>552,775</u>	<u>115,070</u>	<u>1,187,771</u>
Noncurrent Assets:				
Capital Assets, Net Of Accumulated Depreciation:				
Land And Land Improvements	177,673	144,000		321,673
Buildings And Improvements	3,862,481	92,560		3,955,041
Other Equipment		401	80,432	80,833
Vehicles And Equipment		230,340		230,340
Total Noncurrent Assets	<u>4,040,154</u>	<u>467,301</u>	<u>80,432</u>	<u>4,587,887</u>
Total Assets	<u>4,560,080</u>	<u>1,020,076</u>	<u>195,502</u>	<u>5,775,658</u>
Liabilities				
Current Liabilities:				
Accounts Payable			8,856	8,856
Accrued Wages And Payroll Tax			2,277	2,277
Economic Incentive Agreement Payable	20,000			20,000
Notes Payable	1,077,966			1,077,966
Leases Payable		161,567		161,567
Payroll Taxes Payable		1,205	2,165	3,370
Garbage Service Deposits Payable		50,318		50,318
General Obligation Notes Payable		60,639		60,639
Unearned Revenues			2,376	2,376
Total Current Liabilities	<u>1,097,966</u>	<u>273,729</u>	<u>15,674</u>	<u>1,387,369</u>
Noncurrent Liabilities:				
Economic Incentive Agreement Payable	60,000			60,000
Notes Payable	2,038,471			2,038,471
Leases Payable		45,000		45,000
General Obligation Notes Payable		196,449		196,449
Total Noncurrent Liabilities	<u>2,098,471</u>	<u>241,449</u>		<u>2,339,920</u>
Total Liabilities	<u>3,196,437</u>	<u>515,178</u>	<u>15,674</u>	<u>3,727,289</u>
Net Assets				
Invested In Capital Assets,				
Net Of Related Debt	923,717	133,289	80,432	1,137,438
Restricted For:				
Economic Development Projects	973			973
Unrestricted	438,953	371,609	99,396	909,958
Total Net Assets	<u>\$ 1,363,643</u>	<u>\$ 504,898</u>	<u>\$ 179,828</u>	<u>\$ 2,048,369</u>

The accompanying notes are an integral part of the financial statements

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HART COUNTY
STATEMENT OF ACTIVITIES - COMPONENT UNITS

For The Year Ended June 30, 2008

HART COUNTY
STATEMENT OF ACTIVITIES - COMPONENT UNITS

For The Year Ended June 30, 2008

	Hart County Industrial Authority, Inc.	Hart County Solid Waste Management District	Hart County Tourist Commission	Total Component Units
Expenses:				
Operating And Other Expenses	\$ 332,201	\$ 1,554,520	\$ 117,645	\$ 2,004,366
Loss On Sale Of Truck		12,313		12,313
Interest Expense		26,259		26,259
Total Expenses	<u>332,201</u>	<u>1,593,092</u>	<u>117,645</u>	<u>2,042,938</u>
Program Revenues:				
Charges For Services		1,528,545		1,528,545
Operating Grants And Contributions		92,493		92,493
Capital Grants And Contributions				
Total Program Revenues		<u>1,621,038</u>		<u>1,621,038</u>
Net Program (Expense) Revenue	<u>(332,201)</u>	<u>27,946</u>	<u>(117,645)</u>	<u>(421,900)</u>
General Revenues:				
Occupational Tax Revenue	272,870			272,870
Other Tax Revenue	64,691			64,691
Building Rental	79,200			79,200
Rest Area Ad Sales			50,720	50,720
Transient Room Tax			69,008	69,008
Grants			12,342	12,342
Interest Income	6,564	2,383	3,296	12,243
Miscellaneous Income	8,057		265	8,322
Total General Revenues	<u>431,382</u>	<u>2,383</u>	<u>135,631</u>	<u>569,396</u>
Change In Net Assets	99,181	30,329	17,986	147,496
Net Assets - Beginning	<u>1,264,462</u>	<u>474,569</u>	<u>161,842</u>	<u>1,900,873</u>
Net Assets - Ending	<u>\$ 1,363,643</u>	<u>\$ 504,898</u>	<u>\$ 179,828</u>	<u>\$ 2,048,369</u>

The accompanying notes are an integral part of the financial statements

**INDEX FOR NOTES
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HART COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The Hart County Fiscal Court and two of its discretely presented component units, the Hart County Industrial Authority, Inc. and the Hart County Solid Waste Management District, present their government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

Management of the Hart County Tourist Commission, a discretely presented component unit of the Hart County Fiscal Court, presents their government-wide and fund financial statements utilizing the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. This discretely presented component unit has adopted the accrual basis of accounting, under which revenues are recognized when they are earned and expenses are recognized when incurred. The funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities are included on the Statement of Net Assets.

B. Reporting Entity

The financial statements of Hart County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or their exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Units

Hart County Public Properties Corporation

Hart County Public Properties Corporation (Corporation) is a legally separate entity established for the purpose of construction of the Hart County Judicial Center and the related long-term debt service. The Corporation's governing body consists entirely of Fiscal Court members. Therefore, the Fiscal Court is financially accountable and legally obligated for the debt of the Hart County Public Properties Corporation. Financial information for the Hart County Public Properties Corporation is blended within Hart County's financial statements. All activities of the Corporation are accounted for within a major fund, the Public Properties Corporation Fund.

Hart County 911 Emergency Telephone Service

The Hart County 911 Emergency Telephone Service (Service) is a legally separate entity established to provide, maintain, and operate 911 emergency services for the citizens of Hart County. Fiscal Court has the authority to appoint a voting majority of the Service's board. The Service is fiscally dependent on the Fiscal Court because the Fiscal Court sets and collects the fees for the Service. This fiscal dependency requires the Fiscal Court to include the Service as a component unit. Financial information for the Service is blended within Hart County's financial statements. All activities of the Service are accounted for within a non-major fund, the 911 Dispatch Fund.

Discretely Presented Component Units

The financial data of the Hart County Industrial Authority, Inc., the Hart County Solid Waste Management District, and the Hart County Tourist Commission are reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled as "Component Units" to emphasize these organizations' separateness from the Fiscal Court's primary government.

Hart County Parks, Playgrounds, and Recreation District

Hart County Fiscal Court has the authority to appoint a voting majority of the Hart County Parks, Playgrounds, and Recreation District's (District) Board of Directors. The District is fiscally dependent on the Fiscal Court because the Fiscal Court has the ability to modify or approve rate or fee changes. The Fiscal Court is financially accountable for the District, legally entitled to the District's resources, and legally responsible for the District's debt. However, for the fiscal year ended June 30, 2008, the District had no financial activity.

Hart County Industrial Authority, Inc.

The Hart County Industrial Authority, Inc. (Authority) is a legally separate entity established to promote industrial growth in Hart County. Hart County Fiscal Court has the authority to appoint a voting majority of the Authority's board. The Authority is fiscally dependent on the Fiscal Court because the Fiscal Court has authorized the County Judge/Executive to cosign bank notes for the Authority, with the Fiscal Court acting as guarantor. This fiscal dependency requires the Fiscal Court to include the Authority as a component unit. The Authority is not included in any other organization's reporting entity and does not provide services exclusively to the Fiscal Court; therefore, the financial activity of the Authority is presented discretely.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Discretely Presented Component Units (Continued)

Hart County Industrial Authority, Inc. (Continued)

Audited financial statements for the Hart County Industrial Authority, Inc., a discretely presented component unit, may be requested by contacting the Hart County Industrial Authority, Inc., P.O. Box 490, Munfordville, Kentucky 42765.

Hart County Solid Waste Management District

Hart County Fiscal Court established the Hart County Solid Waste Management District (District) as a legally separate entity pursuant to KRS 67.083(3) and KRS 109.014(13) for the purpose of providing solid waste services for the residents of Hart County. Fiscal Court has the authority to appoint the voting majority of the District's board. The District is fiscally dependent on the Fiscal Court because the Fiscal Court is obligated for a financing obligation of a solid waste truck. This fiscal dependency requires the Fiscal Court to include the District as a component unit. The District is not included in any other organization's reporting entity and does not provide services exclusively to the Fiscal Court; therefore, the financial activity of the District is presented discretely.

Audited financial statements for the Hart County Solid Waste Management District, a discretely presented component unit, may be requested by contacting the Hart County Solid Waste Management District, P.O. Box 585, Munfordville, Kentucky 42765.

Hart County Tourist Commission

Hart County Fiscal Court (Fiscal Court) established the Hart County Tourist Commission (Commission) pursuant to KRS 91A.350(2) for the purpose of promoting recreational, tourist, convention and other related activities in Hart County. The Commission is composed of seven members appointed by the Hart County Judge/Executive with the approval of the Fiscal Court. Five members are appointed by the County Judge/Executive from lists submitted by third parties. Two members are appointed at-large by the County Judge/Executive. The Commission's governing body is substantially different from the Fiscal Court. However, the Commission is fiscally dependent on the Fiscal Court because the Fiscal Court controls its major source of revenue. The Commission's major source of revenue is the transient room tax. On May 1, 2001, the Fiscal Court enacted an ordinance imposing a transient room tax.

The Fiscal Court currently collects "3% of the rent for every occupancy of a suite, room or rooms charged." The Fiscal Court is to issue monthly checks to the Commission. This fiscal dependency requires the Fiscal Court to include the Commission as a component unit. The Commission is not included in any other organization's reporting entity and does not provide services exclusively to the Fiscal Court; therefore, the financial activity of the Commission is presented discretely.

Audited financial statements for the Hart County Tourist Commission, a discretely presented component unit, may be requested by contacting the Hart County Tourist Commission, P.O. Box 478, Munfordville, Kentucky 42765.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Hart County Elected Officials

Kentucky law provides for election of the below officials from the geographic area constituting Hart County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities, and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the Fiscal Court. The primary sources of revenue for this fund are reimbursements from the state government and transfers from the General Fund. The Department for Local Government requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Federal and State Grants Fund - The primary purpose of this fund is to account for funds received from grants. The primary sources of revenue for this fund are the grants received from the state and federal governments.

Public Properties Corporation Fund – The primary purpose of this fund is to account for the funds of the Hart County Public Properties Corporation, a blended component unit of the Fiscal Court. The primary sources of revenue for this fund are the rental payments received from the Administrative Office of The Courts, Commonwealth of Kentucky, which are sufficient to pay 100% of the debt service on the First Mortgage Revenue Bonds, Series 2007. This fund is also used to account for the expenditure of the bond proceeds from the First Mortgage Revenue Bonds, Series 2007. The bond proceeds are to be used to construct the Hart County Judicial Center.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, 911 Dispatch Fund, Sheriff Department Fund, Tourist Fund, and Debt Service Fund.

In the prior year, the Justice Center Project Fund was presented as a major fund and the Hart County Public Properties Corporation Fund was presented as a non-major fund based on management's decision and GASB reporting requirements. In the current year, these funds have been combined into the Public Properties Corporation Fund. This fund met the reporting requirements for major fund designation and is included in the current year as a major fund.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Special Revenue Funds:

The Road Fund, Jail Fund, Federal and State Grants Fund, Local Government Economic Assistance Fund, 911 Dispatch Fund, Sheriff Department Fund, and Tourist Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund:

The Public Properties Corporation Fund is a capital projects fund. Capital projects funds are used to account for the financial resources to be used for the acquisition or construction of major capital facilities.

Debt Service Fund:

The Public Properties Corporation Fund and Debt Service Fund are presented as debt service funds. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Enterprise Fund

The principal operating revenues of the county's enterprise fund are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Fiduciary Fund

Fiduciary funds report only those resources held in a trust or agency capacity for individuals, private organizations, or other governments. The county's agency fund is used to account for monies held by the county in the Inmate Account Fund for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary fund:

Inmate Account Fund - This fund accounts for funds received from jail inmates and remitted for jail canteen expenses, booking fees, or returned to the jail inmate.

Presentation of Component Units

Detailed presentations of the financial statements for the discretely presented component units of the Hart County Fiscal Court are available separately from the Hart County Industrial Authority, Inc., Hart County Solid Waste Management District, and Hart County Tourist Commission.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, building improvements, furniture and office equipment, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 20,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved component, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The State Local Finance Officer does not require formal budgets be adopted for the Public Properties Corporation Fund, the Debt Service Fund, and the Jail Canteen Fund.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information (Continued)

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

J. Related Organization and Jointly Governed Organization

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. The primary government's accountability for related organizations does not extend beyond making appointment. Based on these criteria, the Hart County Ambulance Service Taxing District is considered a related organization of the Hart County Fiscal Court.

A jointly governed organization is a regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility. Based on these criteria, the Green River Valley Water District is considered a jointly governed organization of the Hart County Fiscal Court.

Note 2. Deposits

The primary government and its discretely presented component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the primary government or its discretely presented component units and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the primary government's or its discretely presented component units' deposits may not be returned. The primary government or its discretely presented component units do not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). On June 30, 2008, the primary government's bank balance was exposed to custodial credit risk because the bank did not adequately collateralize the primary government's deposits in accordance with the security agreement.

Uncollateralized and Uninsured \$372,913

As of June 30, 2008, all deposits of the discretely presented component units were covered by FDIC or a properly executed collateral security agreement.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 3. Capital Assets

Capital asset activity of the primary government for the year ended June 30, 2008 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 285,398	\$	\$	\$ 285,398
Construction In Progress	1,448,550	7,652,685		9,101,235
Historical Treasures	224,669			224,669
Total Capital Assets Not Being Depreciated	1,958,617	7,652,685		9,611,302
Capital Assets, Being Depreciated:				
Buildings and Improvements	5,028,290			5,028,290
Other Equipment	756,895	108,597	(121,000)	744,492
Vehicles and Equipment (Restated)	937,481	177,405		1,114,886
Infrastructure	1,934,998	681,370		2,616,368
Total Capital Assets Being Depreciated	8,657,664	967,372	(121,000)	9,504,036
Less Accumulated Depreciation For:				
Buildings and Improvements	(1,004,348)	(94,057)		(1,098,405)
Other Equipment (Restated)	(248,160)	(69,482)	56,767	(260,875)
Vehicles and Equipment (Restated)	(573,160)	(71,114)		(644,274)
Infrastructure	(219,869)	(145,841)		(365,710)
Total Accumulated Depreciation	(2,045,537)	(380,494)	56,767	(2,369,264)
Total Capital Assets, Being Depreciated, Net	6,612,127	586,878	(64,233)	7,134,772
Governmental Activities Capital Assets, Net	<u>\$ 8,570,744</u>	<u>\$8,239,563</u>	<u>\$ (64,233)</u>	<u>\$16,746,074</u>
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Vehicles and Equipment	\$	\$ 20,730	\$	\$ 20,730
Total Capital Assets Being Depreciated		20,730		20,730
Less Accumulated Depreciation For:				
Vehicles and Equipment		(1,873)		(1,873)
Total Accumulated Depreciation		(1,873)		(1,873)
Total Capital Assets, Being Depreciated, Net		18,857		18,857
Governmental Activities Capital Assets, Net	\$	\$ 18,857	\$	\$ 18,857

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 65,376
Protection to Persons and Property	115,934
General Health and Sanitation	1,439
Recreation and Culture	4,751
Roads, Including Depreciation of General Infrastructure Assets	<u>192,994</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 380,494</u>

Business-Type Activities:

Jail Canteen	<u>\$ 1,873</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 1,873</u>

Capital asset activity for the discretely presented component units for the year ended June 30, 2008 was as follows:

	Reporting Entity		
	Beginning Balance	Increases	Decreases
			Ending Balance
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 321,673	\$	\$ 321,673
Total Capital Assets Not Being Depreciated	<u>321,673</u>		<u>321,673</u>
Capital Assets, Being Depreciated:			
Buildings and Improvements	4,538,457	17,999	4,556,456
Other Equipment	103,144	16,225	119,369
Vehicles and Equipment	1,326,297	12,000	(4,900)
Total Capital Assets Being Depreciated	<u>5,967,898</u>	<u>46,224</u>	<u>(4,900)</u>
			6,009,222
Less Accumulated Depreciation For:			
Buildings and Improvements	(481,646)	(119,769)	(601,415)
Other Equipment	(27,897)	(94,459)	(122,356)
Equipment and Trucks	(1,022,979)	(1,158)	4,900
	<u>(1,532,522)</u>	<u>(215,386)</u>	<u>4,900</u>
Total Accumulated Depreciation			(1,743,008)
Total Capital Assets, Being Depreciated, Net	<u>4,435,376</u>	<u>(169,162)</u>	<u>4,266,214</u>
Capital Assets, Net	<u>\$ 4,757,049</u>	<u>\$ (169,162)</u>	<u>\$ 4,587,887</u>

Note 3. Capital Assets (Continued)

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Depreciation expense was charged to functions of the discretely presented component units as follows:

Hart County Industrial Authority, Inc.	\$ 114,568
Hart County Solid Waste Management District	91,337
Hart County Tourist Commission	<u>9,481</u>
Total Depreciation Expense - Component Units	<u>\$ 215,386</u>

Note 4. Receivables

A. Solid Waste Mac Truck

On June 19, 2008, Hart County Fiscal Court entered into a financing obligation with the Kentucky Association of Counties Leasing Trust on behalf of Hart County Solid Waste Management District. Hart County Solid Waste Management District, a discretely presented component unit, has agreed to make the one time principal payment and all of the interest payments until the financing obligation is paid in full. The District owes \$129,386 in principal on the financing obligation as of June 30, 2008.

B. Changes In Receivables

Receivable activity of the primary government for the year ended June 30, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental Activities:</u>					
Hart County Solid Waste Management District	<u>\$ 123,131</u>	<u>\$ 129,386</u>	<u>\$ 123,131</u>	<u>\$ 129,386</u>	<u>\$</u>
Governmental Activities Receivables	<u>\$ 123,131</u>	<u>\$ 129,386</u>	<u>\$ 123,131</u>	<u>\$ 129,386</u>	<u>\$</u>

Note 5. Assets Held For Resale

A truck acquired by the Hart County Solid Waste Management District, a discretely presented component unit, under a capital lease arrangement, with an acquisition cost of \$129,643 is included in the Statement of Net Assets under the financial statement caption Assets Held For Resale. The truck is not included in capital assets and is not depreciated, as the District does not intend to hold the asset beyond one year.

Note 6. Short-term Debt

A. Kentucky Association of Counties Advance Revenue Program

In July 2007, Hart County Fiscal Court participated in the Kentucky Association of Counties Advance Revenue Program by issuing notes for the General Fund in the amount of \$112,700 with principal being due in January 2008. While the Fiscal Court did not use borrowed funds in order to meet current General Fund expenditures, they were able to reinvest the funds and receive net interest earnings of \$725.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 6. Short-term Debt (Continued)

B. Solid Waste Mac Truck

On June 19, 2008, Hart County entered into an agreement with the Kentucky Association of Counties Leasing Trust. This agreement was for the purchase of a truck for the Hart County Solid Waste Management District, a discretely presented component unit. The principal was \$129,386 at various interest rates for a period of 18 months, with interest paid monthly and an one time principal payment due on January 20, 2010. The maturity date of the obligation is January 20, 2010. The principal balance of the obligation at June 30, 2008 was \$129,386.

C. Changes In Short-term Liabilities

Short-term activity of the primary government for the year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
Financing Obligations	\$ 123,131	\$ 129,386	\$ 123,131	\$ 129,386	\$
Kentucky Advance					
Revenue Program		112,700	112,700		
Governmental Activities					
Short-term Liabilities	<u>\$ 123,131</u>	<u>\$ 242,086</u>	<u>\$ 235,831</u>	<u>\$ 129,386</u>	<u>\$</u>

Note 7. Long-term Debt

A. General Obligation Refunding Bonds, Series 2004

Hart County Fiscal Court issued general obligation refunding bonds, series 2004, dated February 24, 2004, for the purpose of refunding the Series 1998 Mortgage Revenue bonds of \$3,335,000 issued by Hart County Public Properties Corporation. On March 1, 2004, \$3,755,000 of general obligation refunding bonds was issued. Interest is payable semi-annually on September 1 and March 1 of each year at rates ranging from 2.50% to 4.50%. Principal is payable annually on March 1 of each year. The maturity date of the general obligation refunding bonds is March 1, 2029. The principal balance of these general obligation refunding bonds as of June 30, 2008 was \$3,575,000. Annual debt service requirements to maturity for the general obligation refunding bonds are as follows:

Fiscal Year Ended June 30	Scheduled Principal	Scheduled Interest
2009	\$ 85,000	\$ 144,981
2010	120,000	142,856
2011	125,000	139,256
2012	125,000	135,506
2013	130,000	131,131
2014-2018	735,000	582,057
2019-2023	950,000	418,707
2024-2028	1,075,000	198,869
2029	<u>230,000</u>	<u>10,350</u>
Totals	<u>\$ 3,575,000</u>	<u>\$ 1,903,713</u>

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 7. Long-term Debt (Continued)

B. First Mortgage Revenue Bonds, Series 2007 (Judicial Center Project)

Hart County Public Properties Corporation, an agency and instrumentality of the Hart County Fiscal Court, issued First Mortgage Revenue Bonds, Series 2007, dated April 1, 2007, for the purpose of acquisition, construction, installation, and equipping of the Hart County Judicial Center. On April 10, 2007, \$11,315,000 of first mortgage revenue bonds was issued. Interest is payable semi-annually on October 1 and April 1 of each year at rates ranging from 4.00% to 4.25%. Principal is payable annually on April 1 of each year. The maturity date of the first mortgage revenue bonds is April 1, 2027. The Corporation entered into an annually renewable Memorandum of Understanding with the Administrative Office of The Courts (AOC), Commonwealth of Kentucky, for rental payments sufficient to pay 100% of the debt service on the bonds. The principal balance of these mortgage revenue bonds as of June 30, 2008 was \$11,315,000. Annual debt service requirements to maturity for the first mortgage revenue bonds are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Principal</u>	<u>Scheduled Interest</u>
2009	\$ 405,000	\$ 473,494
2010	425,000	457,294
2011	440,000	440,294
2012	460,000	422,694
2013	475,000	404,293
2014-2018	2,675,000	1,714,475
2019-2023	3,270,000	1,101,175
2024-2027	3,165,000	343,612
Totals	<u>\$ 11,315,000</u>	<u>\$ 5,357,331</u>

C. Courthouse Renovations #1

On September 30, 2002, the Hart County Fiscal Court entered into an agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for courthouse renovations. The principal was \$490,000 at a variable interest rate for a period of ten years, with principal and interest paid monthly. The maturity date of the obligation is June 20, 2010. Administrative Office of The Courts (AOC), Commonwealth of Kentucky, has pledged to pay a portion of the debt service requirements. AOC has pledged to pay \$148,400 of the remaining principal balance as of June 30, 2008. The principal balance of the obligation at June 30, 2008 was \$228,933. Annual debt service requirements to maturity are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Principal</u>	<u>Scheduled Interest</u>
2009	\$ 176,097	\$ 4,929
2010	52,836	1,322
Totals	<u>\$ 228,933</u>	<u>\$ 6,251</u>

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 7. Long-term Debt (Continued)

D. Courthouse Renovations #2

On December 28, 2000, the Hart County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) for courthouse renovations. The principal was \$157,616 at a variable interest rate for a period of 10 years, with principal and interest paid monthly. The maturity date of the obligation is April 20, 2013. The principal balance of the obligation at June 30, 2008 was \$82,951. Annual debt service requirements to maturity are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Principal</u>	<u>Scheduled</u> <u>Interest</u>
2009	\$ 14,875	\$ 2,667
2010	16,825	2,099
2011	17,468	1,675
2012	18,138	1,007
2013	<u>15,645</u>	<u>310</u>
Totals	<u>\$ 82,951</u>	<u>\$ 7,758</u>

E. E-911 Equipment

On November 5, 2005, the Hart County Fiscal Court entered into a financing agreement with Government Capital Corporation for the purchase of E-911 Equipment. The principal was \$166,383 for a period of 7 years, with principal and interest paid annually. The maturity date of the obligation is December 5, 2012. The principal balance of the obligation at June 30, 2008 was \$125,828. Annual debt service requirements to maturity are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Principal</u>	<u>Scheduled</u> <u>Interest</u>
2009	\$ 22,486	\$ 7,087
2010	23,752	5,820
2011	25,090	4,482
2012	26,504	3,069
2013	<u>27,996</u>	<u>1,577</u>
Totals	<u>\$ 125,828</u>	<u>\$ 22,035</u>

F. Hart County Industrial Authority, Inc. Notes Payable

Notes payable at June 30, 2008 of Hart County Industrial Authority, Inc., a discretely presented component unit, consist of the following:

- 1) Note payable to Kentucky Utilities, unsecured, dated May 12, 1998. The note is non-interest bearing and is payable March 27, 2009. The principal balance of the note at June 30, 2008 was \$28,000.
- 2) Note payable to Citizens First Bank, dated April 19, 1999, renewable annually, secured by real estate. Principal payable in full upon sale of the corresponding Project Site. Interest is variable and is payable annually. The principal balance of the note at June 30, 2008 was \$257,090.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 7. Long-term Debt (Continued)

F. Hart County Industrial Authority, Inc. Notes Payable (Continued)

- 3) Note payable Kentucky Infrastructure Authority, dated June 1, 2005, secured by real estate. Principal and interest are payable in semi-annual installments of \$39,709, including interest at .62%. Final payment due June 1, 2037. The principal balance of the note at June 30, 2008 was \$2,104,940.
- 4) Notes payable to PBI Bank are as follows:
 - a) Note dated June 1, 1998, unsecured, renewable bi-annually. Interest is variable and is payable monthly. The principal balance of the note at June 30, 2008 was \$246,100.
 - b) Note dated June 1, 1999, secured by real estate, renewable annually. Interest is variable and is payable annually. The principal balance of the note at June 30, 2008 was \$480,000.
 - c) Note dated July 27, 2001, unsecured and due annually. Payable in monthly installments of \$4,314, including interest at 5.25%. The principal balance of the note at June 30, 2008 was \$307.
- 5) Annual debt service requirements for notes payable to maturity in aggregate of the Hart County Industrial Authority, Inc., a discretely presented component unit, are as follows:

Fiscal Year Ended June 30	Scheduled Principal	Scheduled Interest
2009	\$ 1,077,966	\$ 77,669
2010	66,882	12,535
2011	67,298	12,120
2012	67,715	11,702
2013	68,136	11,281
2014-2018	347,078	50,007
2019-2023	357,989	39,097
2024-2028	369,242	27,843
2029-2033	380,850	16,235
2034-2037	313,281	4,387
Totals	<u>\$ 3,116,437</u>	<u>\$ 262,876</u>

G. Hart County Solid Waste Management District

Capitalized lease obligations and general obligation notes payable at June 30, 2008 of Hart County Solid Waste Management District, a discretely presented component unit, consist of the following:

- 1) Lease payable to Kentucky Area Development District (KADD) Small Issuer Lease Program, dated April 18, 2002; payable on April 20 and October 20 in semi-annual payments of varying amounts of approximately \$15,000 including interest at 5.03%; issued for the purpose of purchasing solid waste equipment. The principal balance of the lease at June 30, 2008 was \$60,000.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 7. Long-term Debt (Continued)

G. Hart County Solid Waste Management District (Continued)

- 2) Lease payable to First Source Bank, secured by a 2004 Freightliner Chassis with a Leach Alpha 20 yard Packer Body recorded at \$87,001, dated May 15, 2004; payable in sixty equal installments of \$1,575 including interest. Final payment due May, 2009. The principal balance of the lease at June 30, 2008 was \$16,924.
- 3) Lease Payable to the Kentucky Association of Counties-1989 Pool, secured by a 2008 Mack Truck, payable in one balloon principal payment of \$129,643 with interest being paid monthly at 3.961%, dated June 19, 2008 and payable January 20, 2010; issued for the purchase of a Mack Truck. The principal balance of the lease at June 30, 2008 was \$129,643.
- 4) \$750,000 Kentucky Infrastructure Authority Assistance Agreement, dated January 1, 2000; payable on June 1 and December 1 in semi-annual installments of \$57,676 including interest at 2.0%; issued for the purpose of financing equipment purchases; secured by the system revenues of the District. The principal balance of the general obligation note at June 30, 2008 was \$144,835.
- 5) \$120,219 Kentucky Banking Centers, Inc., dated December 1, 2005; payable in one hundred and eighteen equal monthly installments of \$897 including interest at 6.5%, final payment of all principal and accrued interest due in December, 2015, in a balloon payment. Issued for the payment of original note and secured by twenty acres of real property. The principal balance of the general obligation note at June 30, 2008 was \$112,253.
- 6) Annual debt service requirements for capitalized lease obligations and general obligation notes in aggregate of the Hart County Solid Waste Management District, a discretely presented component unit, are:

Fiscal Year Ended June 30	Capital Lease Obligations		General Obligation Notes		Total Requirements
	Scheduled Principal	Scheduled Interest	Scheduled Principal	Scheduled Interest	
2009	\$ 31,924	\$ 9,103	\$ 60,639	\$ 10,066	\$ 111,732
2010	144,643	5,914	62,026	8,565	221,148
2011	15,000	2,098	33,610	7,023	57,731
2012	15,000	1,287	4,318	6,443	27,048
2013			4,625	6,136	10,761
2014-2015			91,870	6,511	98,381
Totals	<u>\$ 206,567</u>	<u>\$ 18,402</u>	<u>\$ 257,088</u>	<u>\$ 44,744</u>	<u>\$ 526,801</u>

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 7. Long-term Debt (Continued)

H. Changes In Long-term Liabilities

Long-term liability activity of the primary government for the year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
General Obligation					
Refunding Bonds	\$ 3,625,000		\$ 50,000	\$ 3,575,000	\$ 85,000
Revenue Bonds	11,315,000			11,315,000	405,000
Financing Obligations	527,558		89,846	437,712	213,458
Governmental Activities					
Long-term Liabilities	<u>\$15,467,558</u>	<u>\$</u>	<u>\$ 139,846</u>	<u>\$15,327,712</u>	<u>\$ 703,458</u>

Long-term liability activity of the discretely presented component units for the year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Notes Payable	\$ 3,228,914		\$ 112,477	\$ 3,116,437	\$ 1,077,966
Lease Obligations	248,084	129,643	171,160	206,567	161,567
General Obligation Notes	343,919		86,831	257,088	60,639
Total Component Units	<u>\$ 3,820,917</u>	<u>\$ 129,643</u>	<u>\$ 370,468</u>	<u>\$ 3,580,092</u>	<u>\$ 1,300,172</u>

Note 8. Interest On Long-term Debt

Debt Service on the Statement of Activities includes \$612,310 in interest on long-term bonds and financing obligations and \$5,027 for a duplicate payment later refunded.

Note 9. Employee Retirement System

The Fiscal Court and the Hart County Solid Waste Management District, a discretely presented component unit, have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement disability and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 9. Employee Retirement System (Continued)

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 10. Deferred Compensation

In February 2004, the Hart County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority, 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862.

Note 11. Insurance

For the fiscal year ended June 30, 2008, Hart County Fiscal Court was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 12. Economic Incentive Agreement – Component Unit

In July, 2003, the Hart County Industrial Authority, Inc. (Authority), a discretely presented component unit, entered into an agreement with T. Marzetti Company to commence payment of \$100,000 excavation allowance if T. Marzetti Company reached an employment and payroll goal. In October, 2007, the Authority received acknowledgement that the goal has been reached, resulting in a \$20,000 payment in the current fiscal year, with the remaining \$80,000 payable over the next four years at \$20,000 per year.

HART COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 13. Prior Period Adjustments

A. Net Assets		Governmental Activities			
Beginning Balance - Net Assets		\$ 4,656,926			
Adjustments:					
Capital Assets (Net of Accumulated Depreciation)					
Previously Not Included By Error		1,001			
Correction to Accumulated Depreciation					
For Calculation Error		20,059			
List Investment At Cost		1,461			
Reverse Prior Year Adjustment To Cash		(356)			
Prior Year Checks Voided		901			
Total Restated Beginning Balance - Net Assets		\$ 4,679,992			
B. Fund Balance					
	General Fund	Jail Fund	Public Properties Corporation Fund	911 Dispatch Fund	Sheriff Department Fund
Fund Balance -					
Beginning	\$1,273,336	\$ 25,539	\$ 9,462,945	\$ 15,002	\$ 68,215
Adjustments:					
List Investment					
At Cost			1,461		
Reverse Prior Year					
Adjustment To Cash	(121)			(235)	
Prior Year Checks					
Voided	468	365			68
Beginning Fund Balance					
(Restated)	\$1,273,683	\$ 25,904	\$ 9,464,406	\$ 14,767	\$ 68,283

C. Discretely Presented Component Unit

The beginning net assets of the aggregate discretely presented component units has been restated by \$161,842 for the inclusion of a component unit, Hart County Tourist Commission, previously omitted.

HART COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008

HART COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2008

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,512,511	\$ 1,587,511	\$ 1,999,504	\$ 411,993
In Lieu Tax Payments	25,100	25,100	44,091	18,991
Excess Fees	15,000	15,000	76,894	61,894
Licenses and Permits	20,100	20,100	21,267	1,167
Intergovernmental Revenue	96,600	96,600	98,526	1,926
Miscellaneous	8,000	10,459	105,716	95,257
Interest	10,000	10,000	17,280	7,280
Total Revenues	<u>1,687,311</u>	<u>1,764,770</u>	<u>2,363,278</u>	<u>598,508</u>
EXPENDITURES				
General Government	632,045	751,627	683,539	68,088
Protection to Persons and Property	51,925	58,591	54,388	4,203
General Health and Sanitation	170,588	176,359	175,246	1,113
Social Services	6,550	8,894	8,894	
Recreation and Culture	6,600	7,276	7,276	
Debt Service	45,000	54,703	54,703	
Capital Projects	100,000	304,067	276,720	27,347
Administration	517,315	287,583	283,531	4,052
Total Expenditures	<u>1,530,023</u>	<u>1,649,100</u>	<u>1,544,297</u>	<u>104,803</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>157,288</u>	<u>115,670</u>	<u>818,981</u>	<u>703,311</u>
OTHER FINANCING SOURCES (USES)				
Transfers Out	(690,225)	(822,225)	(951,548)	(129,323)
Transfers In	232,937	232,937	294,505	61,568
Total Other Financing Sources (Uses)	<u>(457,288)</u>	<u>(589,288)</u>	<u>(657,043)</u>	<u>(67,755)</u>
Net Changes in Fund Balance	(300,000)	(473,618)	161,938	635,556
Fund Balance - Beginning	<u>300,000</u>	<u>462,000</u>	<u>1,273,683</u>	<u>811,683</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (11,618)</u>	<u>\$ 1,435,621</u>	<u>\$ 1,447,239</u>

HART COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 1,120,764	\$ 1,531,904	\$ 1,498,446	\$ (33,458)
Miscellaneous	1,200	1,200	8,185	6,985
Interest	8,000	8,000	27,887	19,887
Total Revenues	1,129,964	1,541,104	1,534,518	(6,586)
EXPENDITURES				
Roads	914,935	1,429,649	1,160,786	268,863
Administration	231,870	203,296	188,448	14,848
Total Expenditures	1,146,805	1,632,945	1,349,234	283,711
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(16,841)	(91,841)	185,284	277,125
OTHER FINANCING SOURCES (USES)				
Transfers Out	(232,937)	(232,937)	(232,937)	
Total Other Financing Sources (Uses)	\$ (232,937)	\$ (232,937)	\$ (232,937)	\$ 0
Net Changes in Fund Balance	(249,778)	(324,778)	(47,653)	277,125
Fund Balance - Beginning	249,778	324,778	696,898	372,120
Fund Balance - Ending	\$ 0	\$ 0	\$ 649,245	\$ 649,245

HART COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive Negative
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,210,000	\$ 1,210,000	\$ 1,228,032	\$ 18,032
Charges for Services	80,000	80,000	80,268	268
Miscellaneous	57,000	57,000	115,373	58,373
Interest	1,000	1,000	1,214	214
Total Revenues	1,348,000	1,348,000	1,424,887	76,887
EXPENDITURES				
Protection to Persons and Property	1,417,466	1,475,954	1,385,520	90,434
Debt Service	196,232	196,232	196,231	1
Administration	308,000	375,510	305,782	69,728
Total Expenditures	1,921,698	2,047,696	1,887,533	160,163
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)				
	(573,698)	(699,696)	(462,646)	237,050
OTHER FINANCING SOURCES (USES)				
Transfers In	363,698	495,698	598,698	103,000
Total Other Financing Sources (Uses)	363,698	495,698	598,698	103,000
Net Changes in Fund Balance	(210,000)	(203,998)	136,052	340,050
Fund Balance - Beginning	210,000	210,000	23,606	(186,394)
Fund Balance - Ending	\$ 0	\$ 6,002	\$ 159,658	\$ 153,656

HART COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008
(Continued)

	FEDERAL AND STATE GRANTS FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 2,000,000	\$ 2,000,000	\$ 1,546,976	\$ (453,024)
Total Revenues	2,000,000	2,000,000	1,546,976	(453,024)
EXPENDITURES				
General Government		77,109	77,109	
Protection to Persons and Property	30,000	112,205	84,598	27,607
General Health and Sanitation		83,184	83,184	
Capital Projects	1,970,000	1,249,444	802,000	447,444
Administration		504,500	463,546	40,954
Total Expenditures	2,000,000	2,026,442	1,510,437	516,005
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)		(26,442)	36,539	62,981
OTHER FINANCING SOURCES (USES)				
Transfers Out			(61,568)	(61,568)
Transfers In			31,439	31,439
Total Other Financing Sources (Uses)			(30,129)	(30,129)
Net Changes in Fund Balance		(26,442)	6,410	32,852
Fund Balance - Beginning				
Fund Balance - Ending	\$ 0	\$ (26,442)	\$ 6,410	\$ 32,852

HART COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2008

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. General Fund Reconciliation

The General Fund Budgetary Comparison Schedule differs from the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds for the following reasons:

Reconciliation of General Fund

Total Revenues - Budgetary Basis	\$ 2,363,278
Plus: Debt Service Payments Made On Behalf Of Fiscal Court	<u>165,771</u>
Total Revenues - Modified Cash Basis	<u>\$ 2,529,049</u>
Total Expenditures - Budgetary Basis	\$ 1,544,297
Plus: Solid Waste Truck Purchased With Financing Obligation	129,386
Debt Service Payments Made On Behalf Of Fiscal Court	<u>165,771</u>
Total Expenditures - Modified Cash Basis	<u>\$ 1,839,454</u>
Total Other Financing Sources (Uses) - Budgetary Basis	\$ (657,043)
Plus: Financing Obligation For Solid Waste Truck	<u>129,386</u>
Total Other Financing Sources (Uses) - Modified Cash Basis	<u>\$ (527,657)</u>

HART COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2008
(Continued)

Note 3. Jail Fund Reconciliation

The Jail Fund Budgetary Comparison Schedule differs from the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds for the following reasons:

Total Revenues - Budgetary Basis	\$ 1,424,887
Plus: Unrecorded Receipts in Pier Diem Account	<u>26,789</u>
Total Revenues - Modified Cash Basis	<u>\$ 1,451,676</u>
Total Expenditures - Budgetary Basis	\$ 1,887,533
Minus: Transfer Out To Debt Service Fund For Debt Payment On Jail	<u>(196,231)</u>
Total Expenditures - Modified Cash Basis	<u>\$ 1,691,302</u>
Total Other Financing Sources (Uses) - Budgetary Basis	\$ 598,698
Plus: Transfer Out To Debt Service Fund For Debt Payment On Jail	<u>(196,231)</u>
Total Other Financing Sources (Uses) - Modified Cash Basis	<u>\$ 402,467</u>
Fund Balance - Beginning - Budgetary Basis	\$ 23,606
Plus: Cash in Pier Diem Account	<u>2,298</u>
Total Fund Balance - Beginning - Modified Cash Basis	<u>\$ 25,904</u>
Fund Balance - Ending - Budgetary Basis	\$ 159,658
Plus: Cash in Pier Diem Account	<u>29,087</u>
Total Fund Balance - Ending - Modified Cash Basis	<u>\$ 188,745</u>

**HART COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2008

HART COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2008

	Local Government Economic Assistance Fund	911 Dispatch Fund	Sheriff Department Fund	Tourist Fund	Total Non-Major Governmental Funds
ASSETS					
Cash And Cash Equivalen	\$ 11,994	\$ 41,100	\$ 32,999	\$ 15,736	\$ 101,829
Total Assets	<u>11,994</u>	<u>41,100</u>	<u>32,999</u>	<u>15,736</u>	<u>101,829</u>
FUND BALANCES					
Reserved For:					
Encumbrances		27	2,723		2,750
Unreserved:					
Special Revenue Funds	<u>11,994</u>	<u>41,073</u>	<u>30,276</u>	<u>15,736</u>	<u>99,079</u>
Total Fund Balances	<u>\$ 11,994</u>	<u>\$ 41,100</u>	<u>\$ 32,999</u>	<u>\$ 15,736</u>	<u>\$ 101,829</u>

The accompanying notes are an integral part of the financial statements.

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HART COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2008

HART COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2008

	Local Government Economic Assistance Fund	911 Dispatch Fund	Sheriff Department Fund
REVENUES			
Taxes	\$	\$ 143,684	\$
Intergovernmental	49,925		371,928
Charges for Services		30,000	
Interest	76	314	1,140
Total Revenues	<u>50,001</u>	<u>173,998</u>	<u>373,068</u>
EXPENDITURES			
General Government	16,380	114	422,940
Protection to Persons and Property		127,633	
General Health and Sanitation	35,295		
Recreation and Culture	140,000		
Debt Service		29,573	
Administration		40,197	113,971
Total Expenditures	<u>191,675</u>	<u>197,517</u>	<u>536,911</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(141,674)</u>	<u>(23,519)</u>	<u>(163,843)</u>
Other Financing Sources (Uses)			
Transfers Out			(26,441)
Transfers In	143,000	49,852	155,000
Total Other Financing Sources (Uses)	<u>143,000</u>	<u>49,852</u>	<u>128,559</u>
Net Change in Fund Balances	1,326	26,333	(35,284)
Fund Balances - Beginning (Restated)	10,668	14,767	68,283
Fund Balances - Ending	<u>\$ 11,994</u>	<u>\$ 41,100</u>	<u>\$ 32,999</u>

The accompanying notes are an integral part of the financial statements.

HART COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2008
(Continued)

Tourist Fund	Debt Service Fund	Total Non-Major Governmental Funds
\$ 62,546		\$ 206,230
		421,853
		30,000
		1,530
<u>62,546</u>		<u>659,613</u>
		439,434
		127,633
		35,295
69,007		209,007
	196,231	225,804
		154,168
<u>69,007</u>	<u>196,231</u>	<u>1,191,341</u>
<u>(6,461)</u>	<u>(196,231)</u>	<u>(531,728)</u>
		(26,441)
	196,231	544,083
	<u>196,231</u>	<u>517,642</u>
(6,461)		(14,086)
22,197		115,915
<u>\$ 15,736</u>	<u>\$</u>	<u>\$ 101,829</u>

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Terry Martin, Hart County Judge/Executive
Members of the Hart County Fiscal Court

**Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Hart County, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated August 27, 2009. We did not audit the financial statements of the following discretely presented component units of Hart County Fiscal Court: the Hart County Industrial Authority, Inc., the Hart County Solid Waste Management District, and the Hart County Tourist Commission. Those financial statements were audited by other auditors whose reports have been furnished to us. Hart County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Other auditors audited the financial statement of the aggregate discretely presented component unit, as described in our report on Hart County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hart County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hart County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Hart County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations 2008-03, 2008-04, 2008-05, 2008-06, 2008-07, and 2008-08 to be significant deficiencies in internal control over financial reporting.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that of the significant deficiencies described above 2008-03, 2008-04, 2008-05, 2008-06, and 2008-07 are material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Hart County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations. These noncompliances and other matters are reported in comments 2008-01 and 2008-02.

The Hart County Judge/Executive's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Judge/Executive's response and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

August 27, 2009

**HART COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2008

HART COUNTY COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2008

STATE LAWS AND REGULATIONS:

2008-01 The Fiscal Court Should Properly Levy Occupational License Tax In Industrial Taxing District

KRS 68.602 allows the Fiscal Court to create an industrial taxing district in an area of the “county that includes property that will be used in an economic development project that will result in the creation of at least five hundred (500) new jobs.” The district may be established for “the purpose of levying taxes to pay for the establishment, operation, and maintenance of the level of governmental services provided to the district that exceeds the level of services provided to the other territory of the county.” KRS 68.604 allows districts created under KRS 68.602 to impose a special ad valorem tax and an occupational license tax. KRS 68.604(3)(b) states an “occupational license tax may be assessed after the approval of the fiscal court of the county in which the district is located.” The Hart County Fiscal Court has established an industrial taxing district and imposed an occupational license tax in accordance with these statutes.

On May 19, 2005, the Hart County Fiscal Court (Fiscal Court) voted “to approve Judge to sign an ordinance relating to the creation of a development area by the county” for a manufacturing company project. On June 2, 2005, the Fiscal Court voted “to approve second reading of an ordinance to create an industrial district for the purpose of economic development.” That same day, County Judge/Executive Terry Martin signed an ordinance titled, An Ordinance Relating To The Creation Of A Development Area By The County Of Hart, Commonwealth Of Kentucky. The ordinance states “[p]ursuant to KRS 68.604, the Fiscal Court of the County of Hart finds that the level of governmental services to the Industrial District will exceed that provided to other territory and that such establishment of an Industrial Development District and the levying of authorized taxes under the organization of such District is necessary to pay for operation and maintenance of the level of service provided to the district.” This ordinance, however, apparently did not assess the tax or set the occupational tax rate for the industrial taxing district.

In May 2005, the Fiscal Court verbally instructed the Occupational Tax Administrator to start collecting a 1.5% industrial park tax in the development area. After the Occupational Tax Administrator collects this tax from the companies in the development area, she submits the tax to the County Treasurer. The County Treasurer pays this tax to the Hart County Industrial Authority, Inc. (HCIA), a discretely presented component unit of the Fiscal Court. However, no documentation of the Fiscal Court’s approval of levying the 1.5% industrial park tax can be found in the fiscal court minutes.

On July 7, 2005, County Judge/Executive Terry Martin “reported to Court 2.3% of the construction and employee occupational tax” received from the manufacturing plant in the development area will be used by HCIA to payoff the Kentucky Infrastructure Authority loan. The industrial park tax rate is also mentioned in a local letter of intent between the HCIA, the City of Horse Cave, the Fiscal Court and a manufacturing company signed on March 19, 2003. In this local letter of intent the Fiscal Court “confirms that the combined occupational tax rate applicable to the Site will be 2.3% (County 0.8%, Industrial Park Tax 1.5%) and that there are no plans to increase such rates or impose any new taxes.” In addition, on May 2, 2005, the HCIA discussed “a 2.3% occupational tax to assist in the repayment of the incentives” for a manufacturing company. “Of the 2.3% tax, .8% of the amount is the regular Hart County occupational tax which is to be directed from the County to the HCIA. The 1.5% will be generated by the TIF or SB 193 ordinance. The TIF would require state approval. The SB 193 ordinance is an ordinance that must be approved by Hart County Fiscal Court only.” HCIA voted “to present the SB 193 ordinance to the Hart County Fiscal Court at the earliest possible date.”

We recommend that the Hart County Fiscal Court consult with the county attorney to determine what actions, if any, the Fiscal Court needs to take to ensure the industrial taxing district’s occupational tax rate has been authorized in accordance with the law.

HART COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2008
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2008-01 The Fiscal Court Should Properly Levy Occupational License Tax In Industrial Taxing District (Continued)

County Judge/Executive Response: The Barren River Area Development District assisted the Hart Fiscal Court in a project providing infrastructure to a locating industry. As part of the industrial location project, the Hart Fiscal Court signed a contingent letter of intent with the company which outlined several items including a proposed tax rate that would provide revenues to cover estimated development costs. The County then enacted an industrial development taxing district under KRS 68.602 in order to help pay for the new infrastructure/services that would be provided in the new industrial area. Subsequently, the Fiscal Court levied a tax for that district to provide the necessary revenue to pay for the infrastructure. We believe that there is some confusion with the current audit regarding the imposition of the tax rate being in violation of the 2% limit provided under a tax increment financing district as created under KRS 65.680 and 65.6851. While there is a rate limit (\$0.10/\$100) imposed for ad valorem taxes in KRS 68.604 for the districts created under 68.602; we do not believe there is a corresponding 2% limit for all assessments, as in KRS 65.6851. We think the County currently has a combined rate of 2.3%. There may be other statutes that come into play and the County would welcome any additional clarification of the issue.

Auditor's Reply: The Auditor is not confused about the imposition of the tax rate being in violation of the 2% limit provided under a tax increment financing district as created under KRS 65.680 and 65.6851. The Auditor's concern is that we found no evidence that the Fiscal Court ever officially, by ordinance, assessed the tax or set the tax rate for the industrial taxing district it established in accordance with KRS 68.602. Thus, our recommendation stands that the Fiscal Court should consult with the Hart County Attorney to determine what actions, if any, the Fiscal Court needs to take to ensure the industrial taxing district's tax rate has been authorized in accordance with the law.

2008-02 The Jailer's Salary Should Be Paid Monthly In Accordance With The Maximum Salary Authorization Set By The Kentucky Department For Local Government

KRS 441.245 states the Jailer shall receive an annual salary pursuant to the salary schedule set by the Kentucky Department for Local Government (DLG). The maximum salary set for the Hart County Jailer in calendar year 2007 was \$71,118. Payroll records indicate the Jailer received \$73,684, which is \$2,566 over the required salary amount. The Jailer was overpaid due to mistakes made in withholding health insurance, dental insurance, disability insurance, and life insurance from his gross salary. The Jailer repaid the \$2,566 to the County Treasurer on July 16, 2009. In the future, the Finance Officer should ensure that the proper withholdings are made from the Jailer's gross salary.

County Judge/Executive Response: The Hart County Jailer immediately reimbursed the overpayment when it was brought to his attention. The Finance Officer has been instructed to ensure that proper withholdings are made from the Jailer's gross salary.

County Jailer's Response: Jailer has already paid back the \$2,566.

HART COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2008
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:

2008-03 The Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts And Reconciliations

As a result of our audit, we noted a lack of segregation of duties exists over the following accounting functions: receipts collection and processing, record-keeping, report preparation and reconciliations. Adequate segregation of duties would prevent the same person from having a significant role in these incompatible functions.

The County Treasurer prepares and deposits the receipts, posts to the ledger and prepares reports from these ledgers for submission to the Department for Local Government (DLG), and performs the bank reconciliations. The Occupational Tax Administrator receives and documents payments received for occupational tax and net profits.

To adequately protect employees in the normal course of performing their assigned functions and to protect the fiscal court against misappropriation of assets and inaccurate financial reporting, we recommend the fiscal court separate the duties in preparing and depositing receipts, recording transactions, preparing reports, and reconciling bank accounts. If any of these duties cannot be segregated due to limited number of staff, strong oversight should be provided over the employee responsible. The employee providing the oversight should document this.

County Judge/Executive Response: The County Treasurer and the Hart County Occupational Tax Administrator have been instructed to establish adequate segregation of the duties over receipts and reconciliations, to include at a minimum strong oversight over the employee responsible.

2008-04 The Fiscal Court Should Improve Procedures Over Capital Assets

The County Judge/Executive's office did not have the information on capital asset additions, retirements, or disposals for fiscal year 2008 and their insurance policy was not updated for two additions. In addition, the Fiscal Court purchased a 2007 GMC Sierra on which the Sheriff's office properly obtained bids. However, the Fiscal Court did not approve the bid accepted by the Sheriff's office as required by their administrative code. The Fiscal Court also purchased three 2008 Ford Crown Victorias from a Barren County vendor, without bidding the purchases, at what the Barren County vendor indicated was the same price as the state price contract. Since the Fiscal Court has adopted the Model Procurement Code (KRS 45A.343-460), they may negotiate directly with a vendor as long as the final price does not exceed the state price contract. However, the Fiscal Court did not obtain documentation from the vendor that the vehicles were purchased at a final price that did not exceed the state price contract.

We recommend the Fiscal Court develop and implement a system to include additions that meet the capitalization threshold, to remove retirements/disposals of capital assets from the capital asset listing throughout the fiscal year, and to ensure all additions are added to their insurance policy. In addition, we recommend the Fiscal Court approve all bids for capital assets purchased and obtain documentation from vendors, when a bid is not obtained, that capital assets have been purchased at a final price that does not exceed the state price contract.

County Judge/Executive Response: The Fiscal Court will continue to comply with all applicable statutes and local ordinances regarding bidding requirements. On October 1, 1987, the Fiscal Court adopted the Model Procurement Ordinance. In the case of the 2008 Crown Victorias, the vehicles were obtained below the state price contract.

HART COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2008
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:
(Continued)

2008-05 The Hart County Jailer Lacks Adequate Segregation Of Duties

As a result of our audit, we noted a lack of segregation of duties exists over the following accounting functions: receipts collection and processing, record-keeping, report preparation, reconciliations, and disbursement of funds. Adequate segregation of duties would prevent the same person from having a significant role in these incompatible functions.

The Jailer's bookkeeper prepares and deposits the receipts, prepares and signs checks, posts to the ledgers, prepares reports, and performs the bank reconciliations.

To adequately protect employees in the normal course of performing their assigned functions and to protect the fiscal court against misappropriation of assets and inaccurate financial reporting, we recommend the Jailer separate the duties in preparing and depositing receipts, preparing and signing checks, recording transactions, preparing reports, and reconciling bank accounts. If any of these duties cannot be segregated due to limited number of staff, strong oversight should be provided over the employee responsible. The employee providing the oversight should document this.

County Judge/Executive Response: The Hart County Jailer has been instructed to establish adequate segregation of duties over the accounting functions set forth above, to include at a minimum strong oversight over the employee responsible.

County Jailer's Response: Everything is now double signed. Checks always have been double signed. A ledger is now kept for per diem.

2008-06 The Hart County Jailer Should Improve Internal Controls Over Cash And Receipts

Good internal controls dictate that prenumbered receipts be issued for all funds collected, the prenumbered receipts be accounted for when preparing the daily checkout sheet, a receipts ledger be maintained for all accounts, and the inmate balance report be maintained and reconciled to the Inmate Account.

The Jailer issues prenumbered receipts for all funds collected, however, the prenumbered receipts are not accounted for when preparing the daily checkout sheets for the Per Diem Account and Inmate Account. Also a receipts ledger is not maintained for his Per Diem Account. The inmate balance report supporting the Inmate Account balance should be printed since the report cannot be recreated.

Lack of proper accounting practices and internal control increase the risk that misappropriation of assets and/or inaccurate financial reporting will occur and go undetected by the Jailer. Without proper procedures in place to mitigate this risk, the Jailer is exposing public resources.

We recommend the County Treasurer issue prenumbered receipt books to the Jailer for the Per Diem account, the Jail's bookkeeper issue prenumbered receipt books for the Inmate Account, all prenumbered receipts be accounted for when the daily checkout sheet is prepared, a receipts ledger be maintained on the Per Diem Account, and the inmate balance report be printed and reconciled to the Inmate Account balance.

County Judge/Executive Response: The Hart County Jailer has been instructed to improve internal controls over cash and receipts.

HART COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2008
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:
(Continued)

2008-06 The Hart County Jailer Should Improve Internal Controls Over Cash And Receipts
(Continued)

County Jailer's Response: Receipts are now put in order.

2008-07 The Hart County Jailer Should Improve Internal Controls Over Disbursements

Good internal controls dictate that adequate original supporting documentation should be maintained for all disbursements and per diem collections should be paid monthly to the County Treasurer. All original invoices should be maintained and cancelled upon payment. When funds are transferred from the Inmate Account to the Jail Canteen Fund or Jail Fund, reports supporting the amount transferred should be printed since the reports cannot be recreated. In addition, KRS 441.265 allows for the collection of per diem fees and section (4) states "Any fees or reimbursement received under this section shall be forwarded to the county treasurer for placement in the jails budget." KRS 68.210 prescribes minimum accounting requirements, which include a monthly report by the treasurer that includes all receipts collected for the county. Submitting per diem collections monthly to the Fiscal Court, will allow these funds to be included in the Jail Fund budget and expended for jail expenses.

Lack of proper accounting practices and internal control increase the risk that misappropriation of assets and/or inaccurate financial reporting will occur and go undetected by the Jailer. Without proper procedures in place to mitigate this risk, the Jailer is exposing public resources.

We recommend the Jailer maintain all original invoices, cancel all invoice when paid, print reports supporting transfers between accounts, and submit per diem collections to the County Treasurer monthly.

County Judge/Executive Response: The Hart County Jailer has been instructed to improve internal controls over cash and receipts.

County Jailer's Response: Check numbers and paid date is put on invoices. Checks will now be submitted monthly to the fiscal court. Reports are now printed for transferring from one account to another.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2008-08 The Fiscal Court Should Improve Payroll Procedures

The Fiscal Court should approve a detailed listing of compensation by employee position for all employees, except for the Jail and the Sheriff's office. The Jailer and the Sheriff should provide documentation of setting compensation for the employees of the Jail and the Sheriff's office, respectively, to the Finance Officer. In addition, procedures should be implemented to ensure withholdings are properly deducted from employees' paychecks. During fiscal year 2008, we noted withholdings were not properly deducted from employees' paychecks and the employee's portion was being paid from funds of the Fiscal Court.

HART COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2008
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY: (Continued)

2008-08 The Fiscal Court Should Improve Payroll Procedures
(Continued)

To adequately protect employees in the normal course of performing their assigned functions and to protect the fiscal court against inaccurate financial reporting, we recommend the Fiscal Court approve compensation by employee for all employees, require the Jailer and the Sheriff to provide documentation of compensation for their employees to the Finance Officer, and implement procedures to ensure withholdings are properly deducted from employees' paychecks.

County Judge/Executive Response: The Hart County Finance Officer has been instructed on the foregoing recommendations.

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

HART COUNTY FISCAL COURT


For The Fiscal Year Ended
June 30, 2008

Appendix A

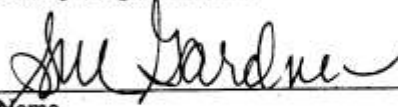
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
HART COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2008

The Hart County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge/Executive



Name
County Treasurer

